

# Memorandum

**To** : Ms. Kristine Cazadd  
Executive Director

**Date:** November 29, 2011

**From** : Jeffrey L. McGuire, Deputy Director  
Sales and Use Tax Department

David J. Gau, Deputy Director  
Property and Special Taxes Department

**Subject : Board Meeting - December 14-16, 2011**  
**Item P3 Sales and Use Tax Department Deputy Director's Report**  
**Proposed Collection Cost Recovery Fee for Calendar Year 2012**

Senate Bill (SB) 858 (Chapter 721, Statutes 2010) requires the Board of Equalization (BOE) to impose a Collection Cost Recovery Fee (CRF) on past due liabilities beginning January 1, 2011. By statute, the amount of the fees imposed must be the same as the collection costs incurred by BOE. In the December 15, 2010 Board Meeting, the Members directed staff to use the Stratified Flat-Fee approach in assessing the fee.

The current CRF rates for calendar year 2011 are indicated in Table 1.

**Table 1 - Stratified Flat-Fee for Calendar Year 2011**

Liability Size	Liability Dollar Range	CRF Amount
Small	\$250.01 - \$2,000.00	\$185
Medium	\$2,000.01 - \$50,000.00	\$550
Large	\$50,000.01 +	\$925

To ensure the fees assessed by BOE continue to equal the costs incurred, the CRF amount must be periodically recalculated. In fiscal year 2010-11, BOE's direct personnel costs identified to collection activities was nearly \$31.5 million as compared to \$29.7 million in fiscal year 2009-10. This amount is comprised of collection costs incurred by both the Sales and Use Tax Department (SUTD) and the Property and Special Taxes Department (PSTD). In addition, the total number of liabilities not in Installment Payment Agreements (IPAs) being eligible for the fee has decreased from 93,147 in fiscal year 2009-10 to 82,921 in fiscal year 2010-11. Because the costs have increased and the number of accounts eligible for the

fee has decreased, the CRF amounts for calendar year 2012 must be recalculated. The proposed rates are included in the Table 2 below.

**Table 2 - Proposed Stratified Flat-Fee for Calendar Year 2012**

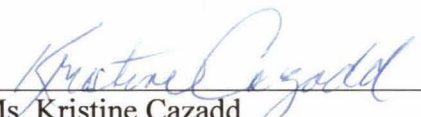
<b>Liability Size</b>	<b>Liability Dollar Range</b>	<b>CRF Amount</b>
Small	\$250.01 - \$2,000.00	\$220
Medium	\$2,000.01 - \$50,000.00	\$660
Large	\$50,000.01 +	\$1,100

At the request of Senator Runner, we would like to place the annual recalculation of the CRF amounts on the Board's December 14-16, 2011 calendar under the Sales and Use Tax Department, Deputy Director's Report. Upon approval, the revised CRF amounts would go into effect on January 1, 2012.

If you have any questions regarding this calculation, please contact Ms. Susanne Buehler at 916-324-1825.

JLM:tf

Approved:

  
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Ms. Kristine Cazadd  
Executive Director

cc: Mr. Stephen Rudd (MIC 46)  
Ms. Susanne Buehler (MIC 92)  
Mr. Kevin Hanks (MIC 49)  
Ms. Diane Olson (MIC 80)  
Ms. Lynn Bartolo (MIC 57)

# Memorandum

**To** : Ms. Kristine Cazadd  
Executive Director

**Date:** December 9, 2011

**From** : Jeffrey L. McGuire, Deputy Director  
Sales and Use Tax Department

David J. Gau, Deputy Director  
Property and Special Taxes Department



**Subject : Board Meeting - December 15, 2011**  
**Item P3. Sales and Use Tax Deputy Director's Report**  
**Proposed Collection Cost Recovery Fee for Calendar Year 2012 - Addendum**

Pursuant to a request for additional alternatives, this memo is an addendum to the proposed Collection Cost Recovery Fee (CRF) with an adjustment for Calendar Year 2012 memo for the December 15, 2011 Board Meeting.

At the December 15, 2010 Board Meeting, the Board directed we use a stratified flat-fee approach which would be assessed to each billing greater than \$250 that remains unpaid after 90 days if it is not part of an approved Installment Payment Agreement (IPA). Large dollar billings would be assessed a higher fee than medium and small billings.

Because of program changes that have occurred over the past year, we would like to re-evaluate the calculations to ensure that the methodology accurately reflects the actual costs incurred to collect amounts owed. Therefore, we propose to adjust the collection cost recovery amounts for calendar year 2012 to the same amount used in calendar year 2011, which is 20 percent lower than the previously proposed 2012 fee amount. We will provide you with a new proposal in six months.

For calendar year 2012, we propose that the fee amounts are adjusted to the lower amounts of \$185, \$550, and \$925 and assessed on small, medium, and large billings, respectively. The proposed CRF amounts for calendar year 2012 are shown on the next page in Table 1.

**Table 1 – Proposed Stratified Flat-Fee for Calendar Year 2012**

<b>Billing Size</b>	<b>Billing Dollar Range</b>	<b>CRF Amount</b>
Small	\$250.01 - \$2,000.00	\$185
Medium	\$2,000.01 - \$50,000.00	\$550
Large	\$50,000.01 +	\$925

As requested, below is an alternative for assessing a fee on past due billings. This alternative is based on a percentage of the liability owed and was originally considered at the December, 2010 Board meeting.

Alternative 1 – Percentage Based Fee – With \$50,000 Cap

Under this alternative, the fee amount would be determined based on a percentage of a taxpayer's liability that remained due after 90 days. Unlike the stratified flat fee structure that was in place during 2011, a percentage based fee would be imposed on all liabilities, including those less than \$250. To prevent the fee amount from being unreasonable, the fee would be limited, or "capped," at \$50,000, since costs incurred by BOE in working a past due liability would rarely exceed this amount.

For calendar year 2012, the fee would be set at 6.8%. The average unpaid liability is \$3,733 and would, therefore, result in an average fee of \$254 being assessed under this alternative. Imposing a cap or limit would result in a fee of \$50,000 being assessed on unpaid balances of greater than \$735,294.<sup>1</sup> Based on data from FY 2010-11, a capped fee of \$50,000 would be assessed on approximately 46 liabilities each year.

*a. Pros*

- Increases the likelihood that the fee amount assessed on a liability will cover the collection costs incurred by BOE since greater resources are generally required to resolve large dollar liabilities.
- Prevents the fee assessed on a liability from being excessive since the fee amount is capped.
- Increases the likelihood of prompting voluntary compliance on larger liabilities since the fee amount imposed would be greater in comparison to the stratified flat fee method.

*b. Con*


- The fee amount assessed on large dollar liabilities would be significantly greater in comparison to the stratified flat-fee method.

Staff recommends using the adjusted stratified flat-fee. This method allows the fee amount to more closely represent costs incurred by BOE while preventing the fee amount from being excessive.

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<sup>1</sup> \$50,000 / 6.8% = \$735,294

If you have any questions regarding this calculation, please contact Ms. Susanne Buehler at 916-324-1825.

Approved: 

Kristine Cazadd  
Executive Director

JLM:mt

cc: Mr. Stephen Rudd (MIC 46)  
Ms. Susanne Buehler (MIC 92)  
Mr. Kevin Hanks (MIC 49)  
Ms. Diane Olson (MIC 80)  
Ms. Lynn Bartolo (MIC 57)